



Government/Credit Managed Account

Quarterly Review

- The global fixed-income markets performed well in the third quarter. Investors reacted favorably to the backdrop of slow but steady economic growth and moderate inflation, together with the US Federal Reserve's decision to reduce interest rates by a quarter point at its September meeting. The cut, which marked the first easing since December 2024, brought the fed funds rate to a range of 4.0% to 4.25%. Investors also displayed confidence that the Fed was likely to continue easing policy over the course of the coming year. Bonds responded favorably to these developments, with longer-term debt and more credit-sensitive categories leading the way.
- US Treasury yields declined modestly across the curve (as prices rose), augmenting the contribution from income. The move represented the continuation of an uneven downtrend in yields that began in late May. Investors reacted favorably to the US Federal Reserve's first interest rate cut of 2025, as well as expectations for a shift toward more dovish policy. The yield on the two-year note declined from 3.72% to 3.60%, while the 10-year fell from 4.24% to 4.16%. Treasuries, while positive in absolute terms, didn't keep pace with the stronger returns for more credit-sensitive areas of the market.
- The strategy remained overweight corporate bonds on a market value basis. Allocation effect was positive as spreads declined but issue selection was negative and overshadowed the positive allocation effect.
- Duration continued to be managed in line with the benchmark but there was a small but negative duration effect during the period.

Outlook

- Fixed income markets delivered strong returns during the third quarter, as both spreads and yields declined. Spread sectors continued to be well supported, while yields re-priced and the curve continued to steepen in anticipation of a 25 basis point cut at the Federal Reserve's September meeting. Alongside the widely anticipated September cut, Chairman Powell indicated that the Fed would look through tariff related inflation impacts. Additional comments on labor force conditions pulled forward market expectations of a third cut to the Federal Funds rate this year. Despite pressure from the White House, the Fed continues to be data driven. Current market expectations are for two 25 basis point cuts at the November and December meetings.
- We are generally constructive on corporate fundamentals, which remain at a healthy level by historical standards. However, as the impact of tariffs begins to work through the economy, weak pricing power and rising debt service costs suggest margin compression going forward. On the consumer front, we believe moderating demand for labor, the continued decline in excess savings, and tight credit conditions are potential catalysts for weaker spending, which may be further exacerbated by higher prices for goods.
- We continue to believe that we are in the late expansion phase of the credit cycle, with growth slowing to below trend, and a short-term increase in inflation. While we do not anticipate the US will enter a recession, we continue to see elevated risk of a downturn scenario. We are concerned that slowing rates of hiring may weigh more heavily on incomes and consumption, the potential for tariffs, the growing fiscal burden and the risk of



an extended government shutdown in the US. Lastly, we are monitoring the vulnerability surrounding the US dollar as demand seemingly moves towards economies with perceived higher growth rates and more attractive risk market valuations.

- While the strategy's corporate bond exposure remains overweight on a market value basis, corporate risk relative to benchmark is currently underweight largely due to a higher quality bias and shorter maturities than the benchmark. We believe this allows the strategy room to increase risk if valuations improve and transaction costs are low.
- For strategies that utilize agency mortgages, the exposure to the asset class is underweight but within range of neutral.

Important Disclosures

Key Risks: Credit Risk, Issuer Risk, Interest Rate Risk, Liquidity Risk, Prepayment Risk and Extension Risk.

Past performance is no guarantee of future results.

There is no guarantee that the investment objective will be realized or that the strategy will generate positive or excess return.

Commodity, interest, and derivative trading involves substantial risk of loss.

Diversification does not ensure a profit or guarantee against a loss.

Any investment that has the possibility for profits also has the possibility of losses, including the loss of principal.

Market conditions are extremely fluid and change frequently.

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